

FY2020 2nd Quarter Financial Results Summary of Q&A

[Financial results and forecast]

Q: What factors caused the gap between the profits forecast and the result of the second quarter from July to September?

A: We fell short the plan by about 28.0 billion yen in the second quarter. Of this amount, impact of environmental deterioration amounted to approximately 25.0 billion yen. The production volume decline was 15.0 billion yen, and the impact of exchange rate was about 10.0 billion yen. We surpassed the internal plan by 10.0 billion yen in the first quarter from April to June so in total we fell short by 18.0 billion yen in the first half.

Q: Please provide an explanation of why you expect profit to increase from the first half to the second half.

A: The market as a whole remains lower than our original forecast, but the production volume will increase in the second half due to sales expansion. In addition, we expect the collection of R&D. Combined with various other factors, operating profit will increase by 50.0 billion yen to 190.0 billion yen in the second half.

Q: As for the environmental factors, please explain your outlook for the second half of the fiscal year in more detail especially whether there are additional risks.

A: The slowdown in China has a large impact on local companies. However Toyota group is currently performing well so the impact to DENSO is small. India and ASEAN are slowing down considerably and I think it is necessary to keep a close eye on those markets.

Q: Please explain the progress to achieve the operating profit of over 8% in the fiscal year ending March 2022.

A: Operating profit margin for this fiscal year will remain at the level of 6% due to the large impact of currency fluctuation. However, considering the investment has peaked out and we are at the volume expanding phase in safety related products and electrification products, I have confident in increasing our profitability from now on and we continue our activities to achieve the target of over 8%. But if the number of overall automobile market declines steadily, it will be a risk for us and could be the case to revise our sales target.

Q: Do you have any change in policy of share buyback?

A: We have not changed our shareholder return policy. It is important to consider to increase shareholders returns constantly and flexibly.

[Initiatives in focus fields]

Q: How much additional investments do you need in the field of electrification while Toyota will electrify 5.5 million units in the future? As reorganization has become a topic in recent years, please update future restructuring and M&A.

A: Since we had early completed electric products, the investment has already peaked out and now we are enjoying profits. We have to increase the capacity for about over 5 million units from 2021 to 2025, but the additional investment would be about 40.0 billion yen. We will reuse lines that we originally established. In addition, we are going to make the line more sophisticated. Regarding the restructure, BluE NEXUS and J-QuAD DYNAMICS have started from the last April and we will start to expand sales. In addition, we will integrate Hirose Plant of Toyota as well as establishing new semiconductor company both in 2020.

Q: At the words of the most recent top management in Tokyo Motor Show, there is a comment that you have to increase the number of software engineers. Please update your policy regarding software development.

A: All companies are still faced with the issue of software development expenditures. We are taking all sorts of steps, such as automation and standardization to increase efficiency rather than reducing development. The development of SoCs in particular needs human resources, so I believe that we need to increase the number of software engineers on a global scale. Not limited to Japanese people, we have large technical centers in the Philippines and Thailand. We are increasing software engineers in the region of Eastern Europe and North Africa while improving the efficiency.